



ARIZONA STATE RETIREMENT SYSTEM

MEMORANDUM

TO: All System Members

FROM: Paul Matson, Director

DATE: September 26, 2006

RE: Optional System Proposal

This memo is to update you on the ASRS System, of which you are a member, and to invite you to attend an upcoming informational meeting to learn more about a proposal under consideration by the ASRS. Enclosed is a Question and Answer sheet regarding the System proposal and a feedback form with a return-addressed stamped envelope.

The System has been closed to new members for more than three decades, when the present Defined Benefit Plan was put into place. Currently, there are fewer than 300 non-retired members in the System (with just 90 actively-contributing members) and approximately 1,800 retired members. This gives rise to a number of factors that could impact the System fund and annuities paid to members such as you in the future.

While most System members are very pleased with their retirement benefit, the System has two major risks that the ASRS is reviewing for purposes of mitigating any negative impact to you. With a declining System population and increasing concentration of longer-living retirees, the System is expected to experience increased volatility in its funding status. Additionally, because a portion of System members' benefits are derived from investment earnings, there is exposure to investment risk. Unlike the Defined Benefit Plan, the System Defined Contribution Plan does not fully guarantee benefits. In fact, as of June 30, 2005 only 37.25 percent of System benefits are guaranteed. Negative impact from risk can result in a reduction of future benefits to you.

In response to inquiries related to the non-guaranteed portion of benefits under the System, the ASRS authorized an outside study of possible options for retired and non-retired members that would provide protection from the downsides of these two potential risk factors. At its July 2006 meeting, the Board of Trustees received a report from the outside consultant on potential options for System members. Before any decisions are made, we would like to share these options with you and hear your thoughts.

Meetings have been scheduled around the state in October to share information with System members on this proposal. A schedule of the meeting dates, times and locations may be found at the end of this memo. Seating is limited and we are asking you to RSVP by calling 602-240-2039 in Phoenix, 520-239-3100, Ext. 2039 in Tucson or 1-800-621-3778 outside Phoenix and Tucson.

Please read the enclosed information and complete the feedback form with your comments on the proposal and return it to our offices by Nov. 3, 2006. Copies of the meeting presentation will be available at the meetings, on our website, www.azasrs.gov, under the main category "System Members" or by mail if you request it. If you have questions, please do not hesitate to contact us.

The following list of ASRS staff members will be able to assist you with your questions. You may also send questions via email to contactus@azasrs.gov, with the words "System Question" in the subject line.

Susanne Dobel (602) 240-2039 or 800-621-3778, Ext. 2039
Rita Anne Johnson (602) 240-2147 or 800-621-3778, Ext. 2147
Rob Reff (520) 239-3103 or 800-621-3778, Ext. 3103
Dennis Balkema (520) 239-3108 or 800-621-3778, Ext. 3108

System Information Meetings

Phoenix - October 5, ASRS Boardroom, 3300 N Central Ave, 1:30 p.m.

Phoenix - October 6, ASRS Boardroom, 3300 N Central Ave., 9:00 a.m. and 1:00 p.m.

Flagstaff - October 10, City of Flagstaff Council Chambers, 211 W Aspen Ave., 10:00 a.m.

Tempe - October 17, Tempe Elementary School District #3, Sanchez Building, Boardroom, 3205 S. Rural Road, 9:00 a.m. and 1:30 p.m.

Chandler - October 19, Chandler Unified School District Boardroom, 1525 W. Frye Road, 9:00 a.m. and 1:30 p.m.

Prescott - October 23, Yavapai College-Performance Hall Green Room, 1100 E. Sheldon Rd., 10:00 a.m.

Tucson - October 26, ASRS Boardroom, 7660 E. Broadway Road, 10:00 a.m., 1:30 p.m. and 6:30 p.m.

Tucson - October 27, ASRS Boardroom, 7660 E. Broadway Road, 10:00 a.m., 1:30 p.m., and 3:30 p.m.

Tucson - October 28, ASRS Boardroom, 7660 E. Broadway Road, 10:00 a.m.

Phoenix - November 2, ASRS Boardroom, 3300 N Central Ave, 9:00 a.m.